



Jackson Hawks

Markets **generally fell** in August, as previous hopes of a central bank dovish pivot evaporated at the US Federal Reserve's (Fed) late August gathering in **Jackson Hole**: Fed chair Jerome Powell reiterated his commitment to fight sticky inflation at the same time that European Central Bank officials also stuck to their recent hawkish mantra: short rates spiked, further inverting the US yield curve. The difference between 2 and 10-year Treasury yields reached a negative 34 basis points (bps), the lowest since the year 2000 and a sign of a bleak outlook ahead.

While inflation readings in the US and European countries such as France came in softer (8.5% in the US in July, vs 9.1% in June), economic data remained mixed: the US jobs market is strong at the same time that the country's housing market is cooling down, hit by higher mortgage rates.

Still, prospects of higher rates this year hit markets, especially **long-duration assets**: US 10-year Treasuries lost 3.4%, taking their year-to-date loss to 11.1% - and their yield up to 3.1%. The more rate-sensitive Investment Grade (IG) indices underperformed High Yield (HY) in both Europe and the US, given the latter's shorter duration. More sensitive to the business cycle, HY also outperformed given a relatively benign second-quarter earnings season in the US.

UK gilts plunged 7.2%, given their traditional long duration and also on fears that the next prime minister may cut taxes and increase public spending after taking over from Boris Johnson. As public workers' strikes disrupted Britain in August, sterling lost 4.2% vs the US dollar, taking its year-to-date drop to 14%.

The euro shed 2% against the greenback as recession fears mounted: the region's Purchasing Managers' Indices (PMIs) fell into contractionary territory, gas prices reached new records and economic data weakened. Economists' consensus is that the Eurozone will fall into a recession in the second half.

It was the **more stable, floating-rate and short-duration assets** such as **Loans and Asset-Backed Securities** that outperformed in August. The US dollar continued to rise.

Some market observers believe that central banks will have to ease policy at some point, given the uncertain outlook ahead.

Signs of the Times

- Powell mentioned "inflation" as many as 44 times in his 8-minute Jackson Hole speech
- Nordic noir: Denmark, Sweden and Finland protested Norway's talk of lower power exports to its neighbours in order to secure its own supplies
- Cost of living crisis: Britain's annual growth in credit card debt is rising by 13%, the most in 17 years. Cost of a pint in 2008: £2.3; in 2022: £8.

Total Return (%)	MTD (%)	YTD (%)	3 yr (%)	YTW (%)
Global Agg.	-3.9	-15.5	-12.5	3.1
Global Agg. Securitiz.	-3.4	-10.4	-7.1	3.7
Global HY	-1.2	-14.6	-4.0	8.9
Global Convertibles	-0.4	-14.7	9.1	
US Agg.	-2.5	-10.4	-5.5	3.9
US Treas. 7-10yr	-3.4	-11.1	-7.5	3.1
US IG	-2.4	-13.7	-5.7	4.8
US HY	-1.9	-10.8	3.6	8.3
US B HY	-1.8	-10.4	1.5	8.6
US Ba HY	-2.6	-10.9	5.5	6.8
US Caa	0.4	-11.8	1.4	13.8
US ABS	-0.7	-4.0	0.3	4.1
US Leveraged Loans (LLI)	1.6	-1.0	9.8	
Palmer Sq CLO Debt Index	2.3	-3.7	11.0	
US BB CLOs	3.8	-4.7	20.2	
UK Gilts (GBP)	-7.2	-18.8	-19.3	2.9
Ger. Bunds (EUR)	-4.9	-11.7	-15.2	1.3
Ital. BTPs (EUR)	-3.8	-13.4	-10.9	3.1
EU IG	-3.9	-11.3	-10.9	3.3
EU HY	-0.9	-10.8	-2.8	7.3
EU HY FIN	-0.3	-12.3	-5.5	7.8
EU Fins	-3.0	-16.4	0.3	
AT1s	-2.5	-14.6	-0.1	8.9
PanEur ABS Euro hdg.	0.0	-1.4	-0.7	
EU Leveraged Loans (ELLI)	2.3	-3.0	6.1	
AsiaPac Agg.	0.0	4.0	11.3	1.7
AsiaPac Corp.	-0.1	1.3	8.5	2.2
China Agg.	0.1	-4.3	18.5	2.6
China Corp.	0.5	3.4	15.9	
EM Asia Credit	0.0	-11.7	-7.4	6.6
EM Aggregate	-0.3	-15.6	-9.7	7.0
EM Hard Curr Agg	-0.6	-17.4	-11.9	6.7
S&P 500	-3.8	-16.7	35.7	
Nasdaq	-4.5	-24.4	48.6	
EuroStoxx 50	-5.1	-18.2	2.6	
Hang Seng Index	0.0	-14.7	-22.4	
Oil	-8.1	20.5	64.5	
BBG Comdty Index	0.1	23.0	58.4	
Bitcoin	-16.2	-57.0	107.2	
USD	1.9	8.3	5.5	
NYFed Small bus. optimism index	0.0	-9.1	-14.1	
NYFed corp. bond distress index	-21.4	22.2	22.2	

OAS (% change)	MTD (%)	YTD (%)	OAS LAST (%)
Global Corp	-1.2	63.9	1.59
Global HY	-3.5	51.7	5.77
US IG	-2.8	52.2	1.40
US HY	1.9	68.9	4.78
US MBS	48.2	29.0	0.40
EU IG	5.9	108.4	1.98
EU HY	-6.6	74.0	5.41
EU CDS Xover	15.5	143.4	5.88
EU CDS IG	19.5	150.3	1.20
UK Corp	5.2	76.3	2.01
EM Agg Hard	-9.8	27.7	3.64
EM Corp	-10.4	24.6	4.15

Source: Bloomberg as at 31 August 2022.

Knowledge: the key to CQS's 3 Rs: Repeatable Responsible Returns

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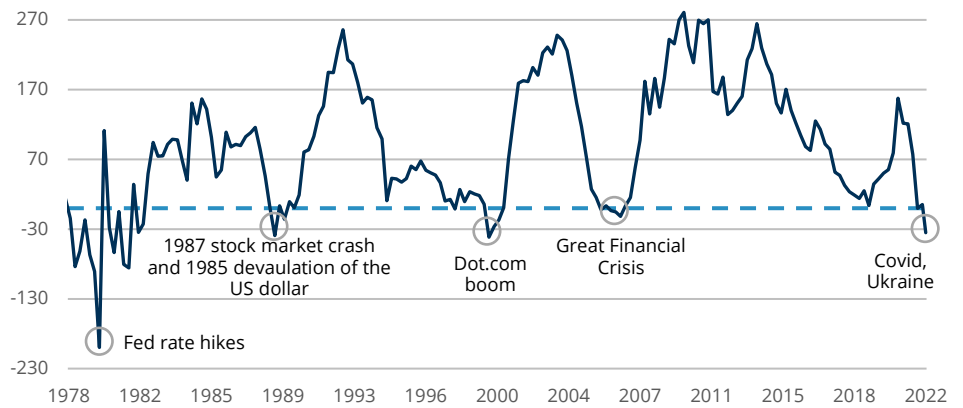
CQS' monthly market update



CQS partnering with the Science Museum on climate change

Chart of the Month

US 2-10Yr Treasury Yield Difference (basis points)



Source: Bloomberg as at 31 August 2022

US Yield Curve Inversion

Much has been written about the yield curve as a sign of forthcoming recessions. The chart shows that when the difference between 2 and 10-year US Treasury yields becomes negative (under the dotted blue line), a recession typically unfolds, as happened just before the dot.com bubble burst, the Global Financial Crisis and more recently, Covid-19 and the Russia-Ukraine war. However, some economists argue that the move is also influenced by non-economic factors, such as global, safe-haven demand for long-term US assets (which pushes long-maturity yields lower) and the persistence of structural deflationary forces, such as low union power and technology.

From the CQS Trading Floor:

Globalisation 2.0: Not Over, Different

Far from over, globalisation is in transition. Three trends are shaping today's economies and markets. In ordinary times they would each be important, but they are happening at once and have been accelerated by the Covid pandemic and the war in Ukraine. These trends are:

1

Energy

Transition to Net Zero: changing the fossil fuel and commodities mix

2

Economies, Markets

Inflation; e-currencies, de-dollarisation and the reshaping of supply and value chains

3

Technology

AI, AGI, QC fuelled by data, delivering the 4IR

Unlike pre-2008 globalisation, these trends are being driven by 2 major geopolitical factors:

1

Great Power Politics

Autocrats and weakened democracies

2

US-China Bipolarisation

Compartmentalising of competition and co-operation

These forces were somewhat suppressed by a decade of easy money and low inflation. This has now changed in 2022, making the power and effect of these forces vastly noticeable in economies and financial markets – which have become a new transmission mechanism:

3

Transmission to Markets

Inflation, higher interest rates, national deficits, tariffs, volatility, higher risk premia

What can investors do?

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Important Information

¹S&P, The European Speculative-Grade Corporate Default Rate Could Rise to 3% by March 2022, 18 March 2023.

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